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December 20, 2004

Phil Bryant, State Auditor
Office of the State Auditor
501 North West Street
Suite 801
Jackson, Mississippi 39201

RE: Financial Audit Findings

Dear Mr. Bryant:

With respect to your audit of the financial statements of the Mississippi State Tax Commission for the Fiscal Year ended June 30, 2004, and your findings and recommendations, we offer the following comments:

REPORTABLE CONDITION

Controls over Key punch of Journal Entries Should Be Strengthened

Response:

The Mississippi State Tax Commission acknowledges the importance of controls over data processing of journal entries to ensure the correct input of information from sales tax journal entries. All seven items cited in your report resulted from human error and have been corrected.

Corrective Action Plan:

A programming change has been initiated to update the data entry requirements for a Period Change Journal Entry. The data entry operator will be prevented from further work until the error is corrected within the batch.

This change will not only correct the larger errors, such as those questioned in the audit report, but also smaller errors that would not be caught when manually reviewing each day's journal entry recap.

Controls over Individual Income Tax Refunds Should Be Strengthened

Response:

The Mississippi State Tax Commission agrees good internal controls are vital to ensure accuracy and that agency personnel should follow policies and procedures. In response to your examples we offer the following:

- The five instances noted where refund checks were issued twice resulted from human error. These items have been corrected.
- The two instances noted where income reported on the return was less than income reported on W2s resulted from gambling income. The W2 was actually a W2G. Due to a recent law change, gambling income is no longer reportable income.
- There were five instances noted where refunds were issued to taxpayers who had failed to submit W2s with their tax return. Front-end review of the return when opened in the mailroom to detect this error would be best practice; however, this procedure is labor intensive and unable to be performed consistently during times of high volume due to lack of sufficient resources.
- There was one instance noted in which numerous errors were found on a tax return that agency personnel had reviewed prior to issuing the refund. Another error was noted where credit for tax paid to another state was not substantiated by personnel reviewing the return. In each situation, agency personnel reviewed the return and made other corrections, but did not compare the withholding or credit to the amount reported on return. Both errors have been corrected.
- One instance was noted in which a return was not input correctly and resulted in an overstated refund. When agency personnel reviewed the return, the error went unobserved and the refund was approved. This error was due to the taxpayer including penalty and interest on estimate and that inclusion was not detected by staff. This account has been corrected.

Corrective Action Plan:

The above issues have been discussed with personnel. Supervisors in mailroom, data entry, and income plan to strengthen our training and instruction procedures for employees.

Data Processing Security Controls Should Be Strengthened

Response:

The Mississippi State Tax Commission agrees that adequate computer room security at the ABC facility in Gluckstadt is important in order to prevent unauthorized access. The agency also agrees that fire resistant materials in the room would reduce the possibility of a loss of property due to fire.

Corrective Action Plan:

Measures have been taken that entry to the computer room will be strictly limited to authorized personnel and a register will be maintained of all other personnel who have reason to enter the room. This action will be monitored by the Director and Deputy Director of the ABC.

The computer room is currently equipped with a fire extinguisher in the event of fire. When financial resources are made available, we will investigate alternatives for fire resistant materials to replace existing furniture and fixtures.

IMMATERIAL WEAKNESSES IN INTERNAL CONTROL:

Policies and Procedures Concerning Delinquent Accounts Should Be Followed:

Response:

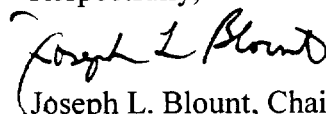
Three instances were noted where agency personnel did not perform appropriate follow-up procedures for out of state accounts. A lack of resources has caused delay in enrollment of Notice of Tax Liens, primarily on out-of-state accounts. It should be noted that the agency has little collection authority over many out-of-state accounts. Therefore, the absence or presence of a Notice of Tax Lien often has little impact on these delinquencies.

Corrective Action Plan

Dependent upon sufficient resources, the agency will engage in a practice of enrolling these liens in a timely fashion to protect the State's interest.

Our staff is available to furnish any additional information requested or further details concerning this audit of our financial statements and the implementation of suggested changes.

Respectfully,



Joseph L. Blount, Chairman
and Commissioner of Revenue

JB/kw